

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
AUDIT OFFICE



DEPARTMENT OF FOOD AND AGRICULTURE
PERSONNEL/PAYROLL SUBCYCLE

AUDIT REPORT
FOR THE TWO-YEAR CYCLE ENDING JUNE 30, 2009

PERSONNEL/PAYROLL
FINANCIAL INTEGRITY AND STATE
MANAGER'S ACCOUNTABILITY ACT

AUDIT REPORT
FOR THE TWO-YEAR CYCLE
ENDING JUNE 30, 2009

AUDIT STAFF

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REPORT NUMBER

08-080

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INTERNAL AUDITOR'S REPORT

We have made a study and evaluation of the accounting and administrative control of the California Department of Food and Agriculture, Human Resource Branch (HRB), personnel/payroll subcycle, in effect as of May 29, 2008. Our study and evaluation was conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

California Department of Food and Agriculture, Human Resource Branch management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Our study and evaluation only revealed one significant internal control problem or weakness that may be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses as well. A more in-depth discussion of the internal control weaknesses is presented in the Findings and Recommendations section of this report.

We noted that the Executive Office, the Human Resource Branch, and the Marketing Branch's internal controls of the personnel/payroll subcycle were weak in the following three areas:

1. Management override of state rules was observed.
2. Leave accounting records may not always reflect separations, overtime, and the correct leave usage due to the absence of requiring employee's Absence and Additional Time Worked Report (Std. 634).
3. Check Lists for Temporary or Permanent Separation (Form SO-8) disclosed a failure to recover telecommunications equipment and removal from NetWare and GroupWise systems due to a lack of timely and effective coordination for 2 of 18 employees reviewed.

In our opinion, the accounting and administrative control at California Department of Food and Agriculture, Human Resource Branch, personnel/payroll subcycle in effect as of May 29, 2008 taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management override. Establishing controls that would prevent all these limitations would not be cost effective; moreover, an audit may not always detect these limitations.

This audit report is intended solely for the information and use of the management of the Department of Food and Agriculture and for filing with the Department of Finance, and should not be used for any other purpose.



Ron Shackelford, CPA
Chief, Audit Office
(916) 651-8774

Finding 1 A Manager allowed another manager to be improperly paid for time not worked.

Condition: Manager A inappropriately allowed Manager B to receive payroll checks in excess of \$55,000 for time not worked in 2007 which resulted in the overpayment. Although our Human Resources Branch (HRB) has estimated the overpayment could be as high as \$67,000, an exact figure cannot be determined until the State Controllers Office processes the overpayment. Although Manager B resigned on March 2, 2007, Manager A allowed Manager B to remain on the State's payroll until December 31, 2007. According to the Human Resources Branch (HRB), Manager B only had enough leave credits to justify keeping the employee on payroll through August 23, 2007. Therefore, Manager B inappropriately received over four months of pay which resulted in the overpayment.

We requested from HRB and were provided with Manager B's absence reports for January 2007 through December 2007. Although Manager B had resigned in March 2, 2007, no leave records were completed or reviewed by a supervisor during the months of March, April, May, June, or July. The first month of 2007 which indicated any leave balances used was for August. On August 31, 2007, Manager A signed the report stating the employee was using 176 hours of leave for August 2007. Manager B's reports were completed and signed for August through December 2007 at which time all of Manager B's absences had been exhausted.

Based on the information our office obtained from the reports, we requested that Manager A provide our office with a written explanation as to why the manager would allow Manager B to remain on the State's payroll after Manager B had resigned. Manager A's written statement was inconsistent. In an attempt to better understand the inconsistencies of Manager A's statement, our office reviewed multiple internal documents. We noted that in April 2007, Manager A requested one of their employees to determine when Manager B's leave balances would run out if Manager B began using their time effective August 1, 2007.

The employee determined Manager B would have enough leave credits to last through February 19, 2008.

Based on the information gathered, it is clear that Manager A was responsible for delaying the use of Manager B's leave credits for several months after the manager resigned. Manager A knowingly allowed Manager B to be paid for time the manager was not employed with the department. A simple request from HRB by Manager A would have indicated she could only remain on payroll until August 2007 after the manager resigned in March 2007. Instead, Manager B selected August 1, 2007 as the date that they would begin recording the usage of the manager's leave credits. Furthermore, it does not appear the Executive Office was properly advised by Manager A as to the proper handling of Manager B's resignation. Manager A actions contributed to the overpayment of State monies of approximately \$55,000 to \$67,000.

Criteria: SAM Section 20003 requires that management ensure the maintenance of reliable data. It states, "Internal accounting controls comprise the methods and procedures directly associated with the safeguarding of assets and assuring the reliability of accounting data."

SAM Section 7200 requires all transactions to be properly recorded and reflected in the accounting records and reports in accordance with generally accepted accounting principles.

Recommendations: The Department should notify the State Controllers Office of the overpayment to Manager B. An accounts receivable should be established for the correct amount. Furthermore, the department should seek repayment once the final dollar amount has been determined.

The Department should consider taking disciplinary actions against Manager A.

The Department should consider strengthening the internal controls Manager A's involvement with personnel actions

regarding Executive Staff. One such control may be to have Chief Legal Counsel review all such actions.

Finding 2 Leave accounting records did not always reflect separations, overtime, and the correct leave usage due to the absence of requiring employee's Absence and Additional Time Worked Report (Std. 634).

Condition: As stated in Finding 1, an employee's Std. 634 was not correctly completed for time not worked. Our office also reviewed the Market Enforcement Branch as part of our audit. Based on interviews with staff, our office determined that employees did not always follow the proper state guidelines as it related to timekeeping. Our office interviewed the branch chief after learning that attendance records were not being properly completed. Our office noted that overtime hours worked and the administrative time off taken in lieu of overtime compensation were not always reported in the Std. 634. Instead the branch chief would track hours on a separate calendar. As such, the lack of internal controls regarding overtime hours exposes the department to possible violations regarding employee time worked in excess of normal hours as specified in the employee's bargaining unit agreements.

Criteria: SAM Section 20003 requires that management ensure the maintenance of reliable data. It states, "Internal accounting controls comprise the methods and procedures directly associated with the safeguarding of assets and assuring the reliability of accounting data."

SAM Section 7200 requires all transactions to be properly recorded and reflected in the accounting records and reports in accordance with generally accepted accounting principles.

SAM Section 8540 requires overtime be authorized and issued in accordance with bargaining unit agreements. Care should be exercised in recording the overtime hours worked on the monthly attendance reports and overtime records of the employing State agency.

Recommendation: The Executive Office and the Marketing Branch should seek the proper training from HRB as it relates to timekeeping. Furthermore, HRB should ensure that staff and supervisors are aware of the proper policies regarding timekeeping. It is important that a Std. 634 is properly completed on a monthly basis in accordance with SAM. This may require more frequent reminders and training of all departmental supervisors.

Finding 3 Check Lists for Temporary or Permanent Separations (Form SO-8) disclosed a failure to recover telecommunications equipment and removal from NetWare and GroupWise systems due to a lack of timely and effective coordination for 2 of the 18 employees reviewed. Furthermore, Telecommunication employees also stated that they are not always made aware of employee separations.

Condition: Check Lists for Temporary or Permanent Separations (Form SO-8) were not always fully completed. For example, HRB did not always ensure the SO-8's reflected the sign off by Telecommunications that state owned equipment had been returned prior to the date the payroll warrant was released. Without such information, we determined employees were paid before full verification that all outstanding balances and state owned properties have been cleared.

Criteria: SAM Section 8580.4 states, "Salary warrants must not be distributed to separating employees until the Department is assured that all outstanding travel and salary advances have been paid." This may be done by incorporating into a general "check-out" list the requirement that, along with other acknowledgments for state-owned items such as credit cards, keys, telecommunications equipment, and all state records, the revolving fund clerk's acknowledgment also be obtained or evidence must be included in the terminating employee's file prior to the release of the final warrant.

Recommendation: HRB should ensure that proper procedures are followed regarding separating employees. HRB must ensure that SO-8 forms are submitted by the programs for all separated employees and that the forms are fully completed. Once the

SO-8 forms are returned from Financial Services and all outstanding balances have been cleared, the salary warrants may be released. Furthermore, HRB should document the release date on the SO-8.

MANAGEMENT'S RESPONSE TO FINAL AUDIT REPORT

MEMORANDUM

To: File **Date:** September 5, 2008
From: Linda Berg Gándara **Subject:** Corrective Action
Chief Counsel
California Department of Food & Agriculture

An internal audit conducted by Ron Shackelford, Chief of the California Department of Food and Agriculture Audit Office, found that Manager A inappropriately allowed Manager B to be overpaid by more than \$55,000. This overpayment was reported to the Legal Office, and the following corrective actions were taken:

1. This overpayment was possible, in part, because the Department had insufficient internal controls ensuring that each employee filed a STD. 634 (Absence and Additional Time Worked Report) reflecting each month worked. To correct this problem, the Department has instituted the following policies:
 - a. Amending the attendance clerk manual to include:

Per the Department's Legal Office, the policy of the Department is that all staff must submit a STD. 634 for each month. If the staff member has not taken time off during the month, they are to submit a STD. 634 with "No Time Taken" listed on the form.
 - b. The Department Human Resources Branch (HRB) will hold a special training session for the designated attendance clerks from all units who are not enforcing the policy of requiring each staff member to submit a STD. 634 each month.
 - c. HRB will contact the other units who are not following these procedures and stress that these procedures must be followed.
2. A letter of reprimand has been placed in Manager A's file.
3. The Department is in the process of contacting the State Controller's Office (SCO). Once the SCO is notified, the Department will establish an Accounts Receivable for the exact amount that was overpaid, and take appropriate action regarding that overpayment.

Memorandum

To : Ron Shackelford, Chief
Audit Office

Date: September 4, 2008

Place: Sacramento

Phone: 445-5055

From : Department of Food and Agriculture – Kelly Krug, Director
Division of Marketing Services

Subject : Reply to Audit Report #08-080 Finding #2

I am replying to your September 3, 2008 email message and the attachment of Audit Report #08-080, Finding #2.

We look forward to working with Human Resources Branch to redouble efforts to insure complete conformance with CDFA procedures to document any time earned or leave used on the monthly attendance reports (Std Form 634).

I have spoken with the Branch Chief of Market Enforcement about the audit finding. Any incidental recordings of time worked or leave used informally, ended at the time Internal Audits Staff raised this concern with Market Enforcement Branch Chief earlier this year. Market Enforcement Branch management is following the prescribed CDFA formal process for documenting time earned and leave used.

Memorandum

To: Ron Shackelford, Chief
Audit Office

Date: August 29, 2008

Place: Sacramento

Telephone: (916) 657-4848

From: Department of Food and Agriculture - Gay Faivre, Personnel Officer
Human Resources Branch

Subject: Response to Internal Audit Report #08-080

Thank you for your auditor's report received via e-mail on August 18, 2008.
Following are my responses to findings 2 and 3.

Finding #2 – The Human Resources Branch (HRB) does not advocate any informal time keeping practices and is in agreement with the recommendations of this audit finding. HRB consistently trains attendance clerks to work with all staff in the documentation of overtime earned and leave used in accordance with the employee's work week group and memorandum of understanding. HRB staff will provide individualized training to the Executive Office and staff of the Market Enforcement Branch and based on the audit findings, we will provide an annual reminder to all department staff regarding proper timekeeping procedures.

Finding #3 – It is the responsibility of supervisors/managers to ensure their employees leaving the department are properly relieved of state-owned equipment and removed from all data bases. HRB sends a monthly list of separated employees to Information Technology Services for their use in deleting employees from the GroupWise accounts. Additionally, HRB recently revised the Checklist for Permanent and Temporary Separation (SO-8) to document the return of telecommunications and information technology equipment and modification of databases. We will continue to review the SO-8 form and process and implement changes where necessary. HRB will also provide periodic reminders to appropriate staff regarding the importance of collecting equipment from separating employees.

Thank you for this opportunity to respond to the internal audit findings. Please let me know if you have any questions.

EVALUATION OF MANAGEMENT'S RESPONSE

A copy of the preliminary report was forwarded to the Chief Legal Counsel, management of the Human Resource Branch, and management of the Marketing Services Branch for its review and response. We have reviewed the responses and they satisfactorily address the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this report are based on field work my staff performed between February 21, 2008 and May 29, 2008. Our office discussed with the department's legal counsel on August 14, 2008 the findings and recommendations included in this report.

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REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office